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Ukraine

Grain and Feed Annual

Grain and Feed Annual

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Report Highlights:

Grain and pulse production is expected to decrease in 2010 compared to the better than average crop in 2009. Preliminary production forecast will probably need fine-tuning when weather impacts are better estimated later in the season. Difficult economic situation and the banking sector crisis have pressed farmers to be self-sufficient and economize. Ukraine remains on the list of top grain exporters, thanks to bumper crops in 2008 and 2009.

Executive Summary:

According to the State Statistics Committee, the grain crop totaled 46 million tons in 2009, which is 13.7% less than the record grain crop harvested in 2008, but still better than average. Last year the good crop helped farmers to plant 8.56 million ha with winter crops (+3.7% compared to the area planted for winter crops in the previous season), including 6.67 million ha (+2.6%) planted with winter wheat. Winter weather conditions were worse than a year ago, but still relatively favorable for crop development, with only 10% of winter grains estimated to date as “weak”. We expect total grain production to decrease in 2010, which reflects an expected decline in average yields.

The financial crisis and the following credit crunch forced farmers to be self-sufficient and not to rely on any banking loans. The budget constraints will likely leave farmers without any significant direct subsidies as well, but tax legislation remains favorable for the industry. The situation with overdue value added tax (VAT) refunds was exacerbated in the 2009/2010 marketing year, and it negatively reflects on future farm incomes, as grain trading companies are likely to pass the risks of government failures to refund VAT to local producers through price discounting.

Domestic consumption is influenced by the economic meltdown, while grain prices kept stable thanks to high pace of grain export sales in the first half of the 2009/2010 marketing year. Export sales are expected to slow down in the remaining months of this marketing season, but total grain exports may exceed 20 million tons in MY 2009/2010 and will definitely be the second largest grain exports in Ukraine’s history (after almost 25 million tons of grain exported in MY 2008/2009). FAS-Kyiv forecasts grain exports to decrease in the 2010/2011 marketing year, due to possibly lower crop, but to remain at relatively high level.

WHEAT

Production:

In 2010, wheat production is expected to decline by 8% on lower harvested area and possibly lower average yield. According to the data from the State Statistics Committee, 6.67 million hectares of winter wheat (usually about 95% of Ukraine’s total wheat output) were planted for 2010/2011 crop, compared to 6.89 million ha planted for 2009/2010 crop. However, winter wheat harvested area may decrease in 2010, due to a possible increase in winterkill.

When winter wheat planting started there was a period of dry weather, and soil moisture was significantly lower than average in August-September 2009. The situation improved in late September and October, thanks to an increase in rainfall. Unfavorable weather conditions extended the planting campaign, but warm weather that followed rains allowed farmers to complete winter wheat planting. In the beginning of November 2009, a large portion of winter crops was estimated as “weak”, but a period of warm weather in late fall helped crops to become stronger before frosts eventually came in the middle of December 2009.

Weather conditions during winter (from December to February) were mostly favorable for winter wheat crop development. Average temperature this winter was lower than normal, but snow cover helped winter wheat crops to withstand low temperatures in December and January.

According to the Ministry of Agrarian Policy of Ukraine, 90% of the winter crop is categorized as “good” or “satisfactory”. Only 10% is categorized as “weak” as of February 2010, implying about average potential for winter crop yields. These indicators are good compared to data of the past five years:

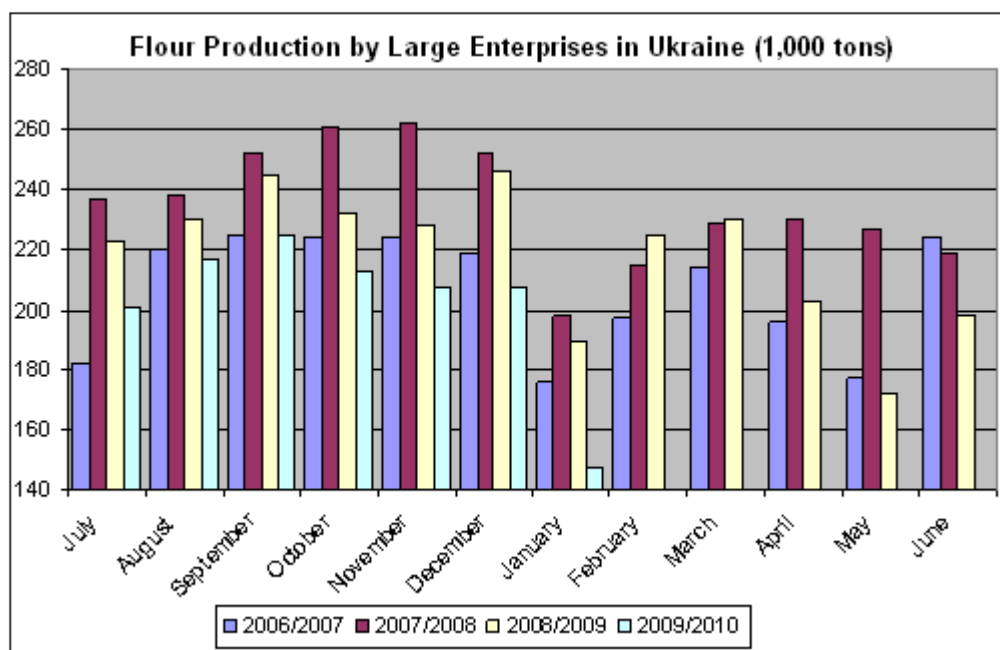
February 2010 – 90% is in good or satisfactory condition. 10% is weak;
 February 2009 – 95% is in good or satisfactory condition. 5% is weak;
 February 2008 – 90% is in good or satisfactory condition. 10% is weak;
 February 2007 – 91% is in good or satisfactory condition. 8% is weak;
 February 2006 – 70% is in good or satisfactory condition. 30% is weak;
 February 2005 – 89% is in good or satisfactory condition. 11% is weak.

It should also be noted that 7.7% of winter wheat crops are covered by ice crust, which may lead to additional risks for crop development if the situation stay unchanged for a long period of time (in most cases , ice crust does not lead to serious risks for crops if it lasts not more than 30-40 days).

We expect wheat yields to decline by approximately 6% year over year and to average 2.9 tons per ha, due to less favorable weather conditions and limited use of advanced technologies and quality inputs because of the credit crunch.

Consumption:

An expected decrease in wheat production in 2010 should result in slightly lower wheat consumption when compared to the 2009/2010 marketing year. We also expect food consumption to track demographic changes in the 2010/2011 marketing year (population of Ukraine gradually declined to 45.96 million in January 2010 from 49.5 million in February 2000).



Source: State Statistical Committee of Ukraine

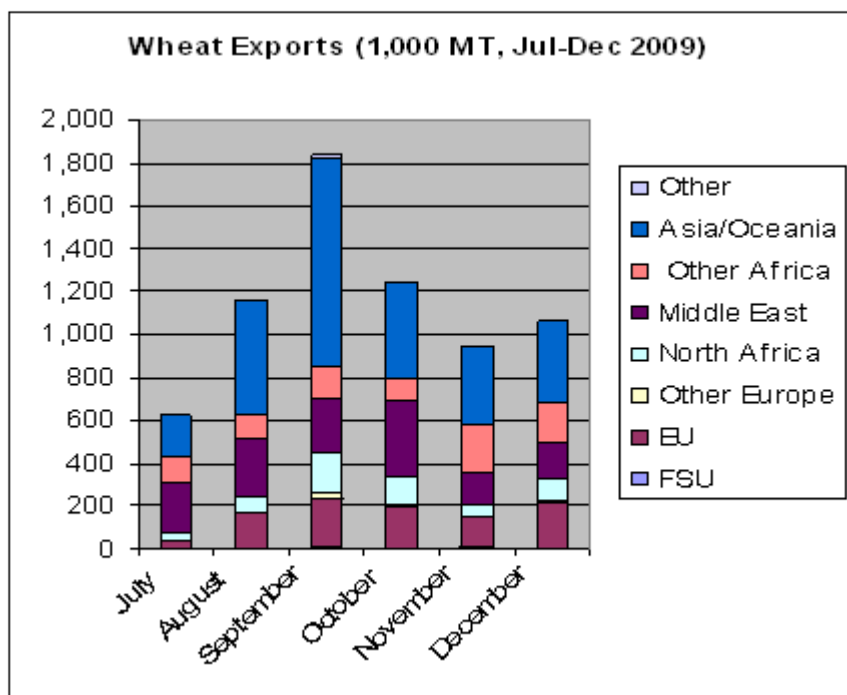
In spite of a relatively good wheat crop in 2009, flour production decreased to 1.4 million tons during 7 months (July-January) of MY 2009/2010, which is 13% less compared to the same period of the 2008/2009 season. The decrease was mostly attributed to lower production of bread and bread products that decreased by 8% in July-January of MY 2009/2010 compared to the same period of the 2008/2009 marketing year. Production of pasta products also declined by 8% in July-January of MY 2009/2010 compared to the same period of the 2008/2009 marketing year. The GOU continuously tries to regulate bread prices through limiting profit margins for bakers and retailers (especially for so called “social bread”), which has an adverse impact on domestic wheat flour production.

In the 2010/2011 marketing year, we expect wheat consumption to decline by approximately 3%. Feed consumption is expected to go down by 3%, but the forecast may be changed based on wheat quality.

Trade:

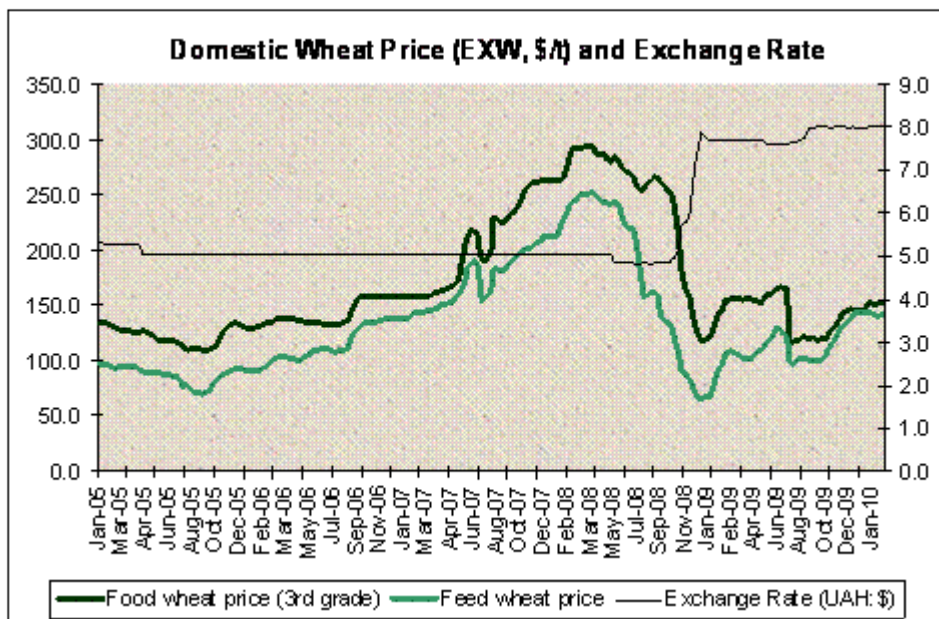
Exports

In the 2010/2011 marketing year, Ukraine's wheat exports are expected to decrease by 17% year over year totaling 7.5 million tons, which still constitutes the third largest wheat exports in Ukraine's history. Total wheat exports are expected to reach 9.0 million tons in the 2009/2010 marketing year due to both large crop and carry-over stocks. This forecast assumes the GOU will not reintroduce export quotas on grains for the 2009/2010 marketing year. Similar to the previous season, wheat exports sales were very active in the beginning of the current marketing year. Ukraine exported record 6.9 million tons of wheat in July-December of the 2009/2010 marketing year. Among the biggest buyers there were traditional buyers from North Africa (Tunisia, Egypt), Middle East (Israel, Jordan, Syria), Asia/Oceania (South Korea, Bangladesh), as well as Europe (Spain), as well as some new markets (e.g. Kenya).



Source: State Customs Committee of Ukraine

Active exports helped wheat prices to increase. The second half of the marketing season is expected to be less dynamic. However, considering the balance of domestic wheat market, even if export sales slow down in the next months, wheat prices are forecasted to stay relatively firm this year. In general, wheat prices follow global trends if the GOU does not apply export restrictions or other administrative measures to limit domestic wheat prices.



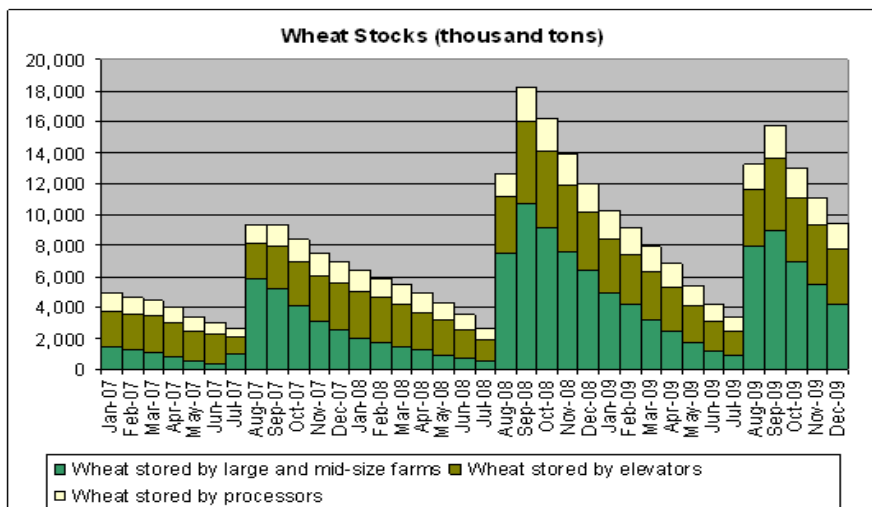
Source: Informational Agency APK-Inform

Imports

Wheat imports for the 2010/2011 marketing year are likely to remain very low. Ukraine does not import much wheat, except for the rare situation when very unfavorable weather conditions lead to significant wheat crop losses. Some processing companies have imported durum wheat, but such purchases are not performed often, and considering the devalued currency and the economic hardship in Ukraine (leading to lower demand for high quality pasta products) these imports are expected to be minimal in the 2010/2011 marketing year.

Stocks:

In marketing year 2010/2011, wheat ending stocks are expected to be lower than in marketing year 2009/2010 due to decreased wheat supply. As of February 1, 2010, agricultural producers (large and mid-size farms), elevators and processors stored 6.6 million tons of wheat, which is 28% less compared to wheat stocks on February 1, 2009.



Source: State Statistics Committee of Ukraine

This figure includes 2.7 million tons held by farmers (about 4.2 million tons was held by farmers in February 2009). This stock information does not account for wheat stored by small farms and private households which accounts for up to 20% of all wheat produced in Ukraine.

Production, Supply and Demand Data Statistics:

Ukraine										
Wheat										
	2008 Revised			2009 Estimate			2010 Forecast			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2008	07/2008		07/2009	07/2009		07/2010	07/2010	MM/YYYY
Area Harvested	7,050	7,054	7,054	6,750	6,700	6,753			6,600	(1000 HA)
Beginning Stocks	2,074	2,108	2,074	3,110	3,381	3,349			2,939	(1000 MT)
Production	25,900	25,883	25,885	20,900	19,430	20,885			19,140	(1000 MT)
MY Imports	73	5	5	100	5	5			5	(1000 MT)
TY Imports	73	5	5	100	5	5			5	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0			0	(1000 MT)
Total Supply	28,047	27,996	27,964	24,110	22,816	24,239			22,084	(1000 MT)
MY Exports	13,037	12,715	12,715	9,000	8,000	9,000			7,500	(1000 MT)
TY Exports	13,037	12,715	12,715	9,000	8,000	9,000			7,500	(1000 MT)
Feed Consumption	2,900	2,900	2,900	2,800	3,000	3,000			2,900	(1000 MT)
FSI Consumption	9,000	9,000	9,000	9,300	9,300	9,300			9,000	(1000 MT)
Total Consumption	11,900	11,900	11,900	12,100	12,300	12,300			11,900	(1000 MT)

n										
Ending Stocks	3,110	3,381	3,349	3,010	2,516	2,939			2,684	(1000 MT)
Total Distribution	28,047	27,996	27,964	24,110	22,816	24,239			22,084	(1000 MT)
Yield	3.6738	3.6692	3.6695	3.0962	2.9000	3.0927			2.9000	(MT/HA)

BARLEY

Production:

Winter barley planted area for 2010/2011 crop increased by 25% year over year and totaled 1.59 million ha. Winter barley represents usually 10-15% of total barley production. Winter frosts damaged barley crops in some regions, but most crops are currently in good or satisfactory condition. Only 12% of winter barley crops (about 0.2 million ha) was estimated as weak by the Ministry of Agrarian Policy of Ukraine in February 2010.

FAS-Kyiv forecasts that barley harvested area will decrease by 10% in the 2010/2011 marketing year due to winter barley winterkill and the reduction in area planted with spring barley, which is partially attributed to the price situation. Domestic prices of feed barley are about 30% less compared to the prices of feed corn now.

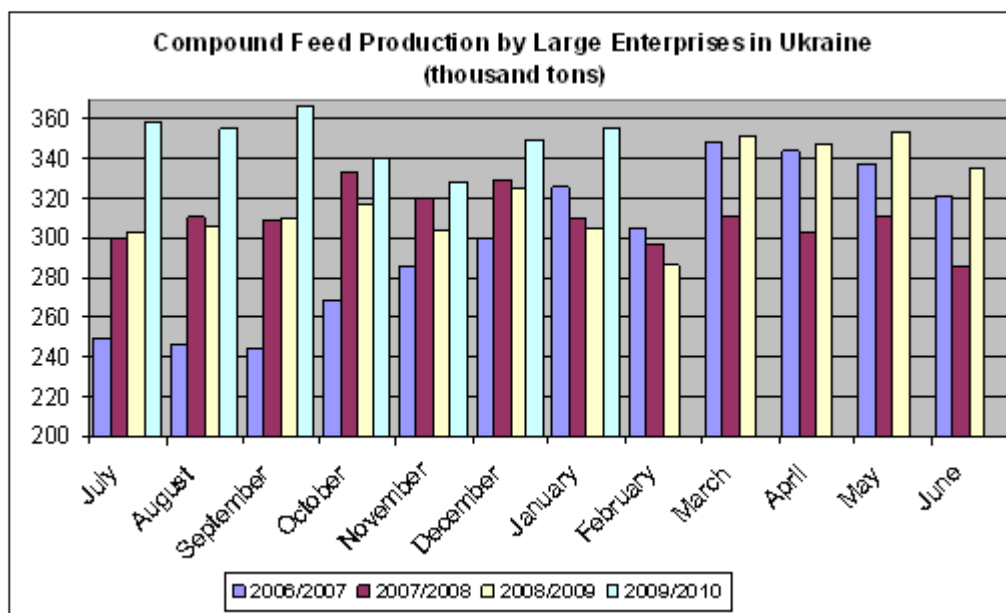
We also expect an average barley yield to decrease from last year's level by 2%, leading to an 11% decrease in total barley production. Therefore, we expect total barley production to decrease to 10.5 million tons, which is still close to high average levels of previous seasons.

Consumption:

Barley feed use is expected to decrease slightly in the 2010/2011 marketing year, particularly due to lower production. Barley feed use, similar to the use of other feed crops, is related to the continued decline in Ukraine's dairy and livestock sectors. Please see Dairy and Products Annual Report

(http://gain.fas.usda.gov/Recent%20GAIN%20Publications/DAIRY%20AND%20PRODUCTS%20ANNUAL_Kiev_Ukraine_11-2-2009.pdf) and Livestock Annual Report

(http://gain.fas.usda.gov/Recent%20GAIN%20Publications/Voluntary%20Annual%20Report_Kiev_Ukraine_9-14-2009.pdf) for details.



Source: State Statistics Committee of Ukraine

Thanks to the bumper crop in 2009 and the development of some large poultry businesses, compound feed production has increased in the current marketing year. About 2.5 million tons of compound feed was produced in Ukraine in seven months of the 2009/2010 marketing year (July-January), which is 4% more compared to what was produced in the same period of the 2008/2009 marketing year. In January 2010, Ukrainian companies produced 356,200 tons of compound feed, which is 2% more compared to production in January 2009. Compound feed production is driven by the development of large integrated corporate farms in poultry and pig sectors. Some of these businesses run their own compound feed plants.

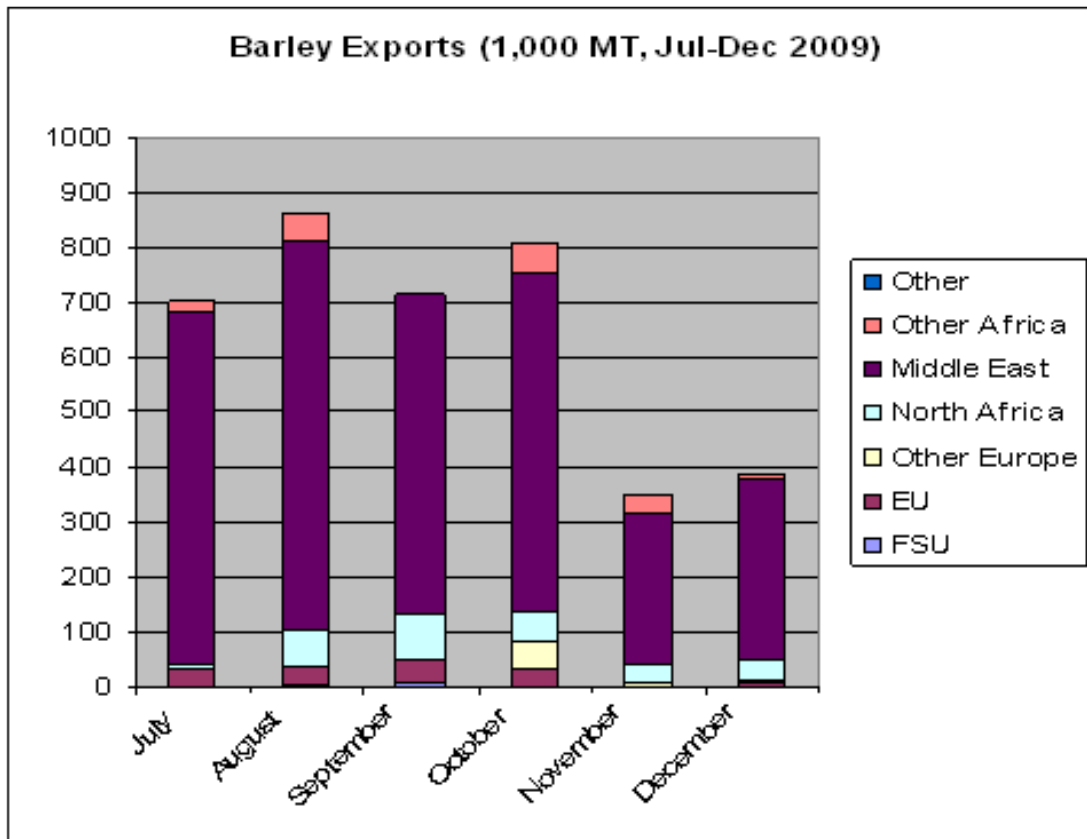
The financial crisis has adverse impacts on different industries in Ukraine, including malt production. About 205 thousand tons of malt was produced in Ukraine in seven months of the 2009/2010 marketing year (July-January), which is 29% less compared to what was produced in the same period of the 2008/2009 marketing year. In January 2010, Ukrainian companies produced 29.5 thousand tons of malt, which is 1% more compared to production in January 2009.

Trade:

Exports

In the 2010/2011 marketing year, barley exports are expected to remain relatively high, but lower (at 5.0 million tons) compared to the exports in the 2009/2010 marketing year due to lower barley supply. Ukraine exported almost 4 million tons of barley in the first half of the marketing year.

Considering barley availability on the domestic market, FAS-Kyiv expects that barley exports may be close to or exceed 6 million tons in the 2009/2010 marketing year. Saudi Arabia is expected to remain the main destination point. The remaining exports are expected to be shipped to other traditional markets in the Middle East and North Africa.

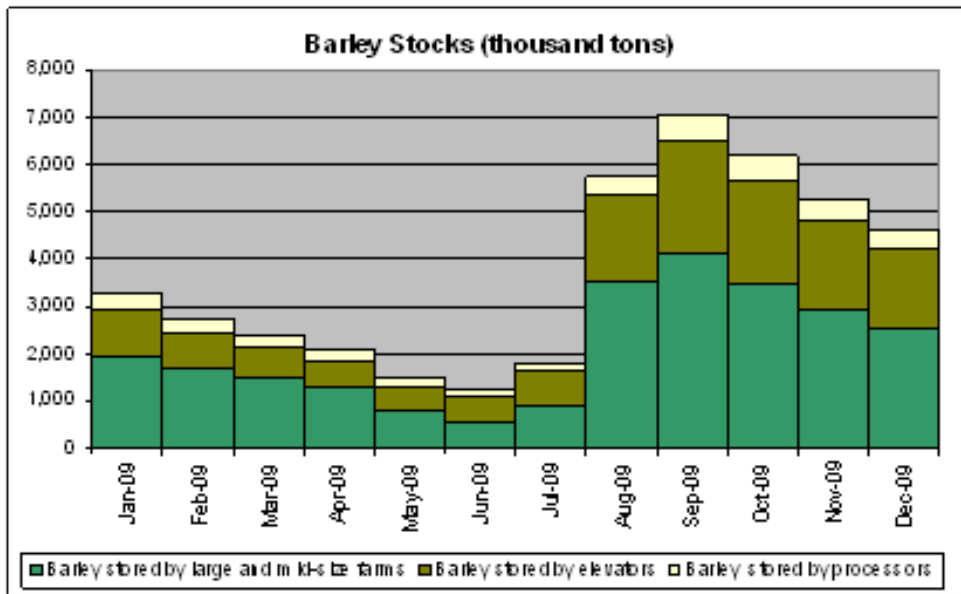


Source: State Statistics Committee of Ukraine

Stocks:

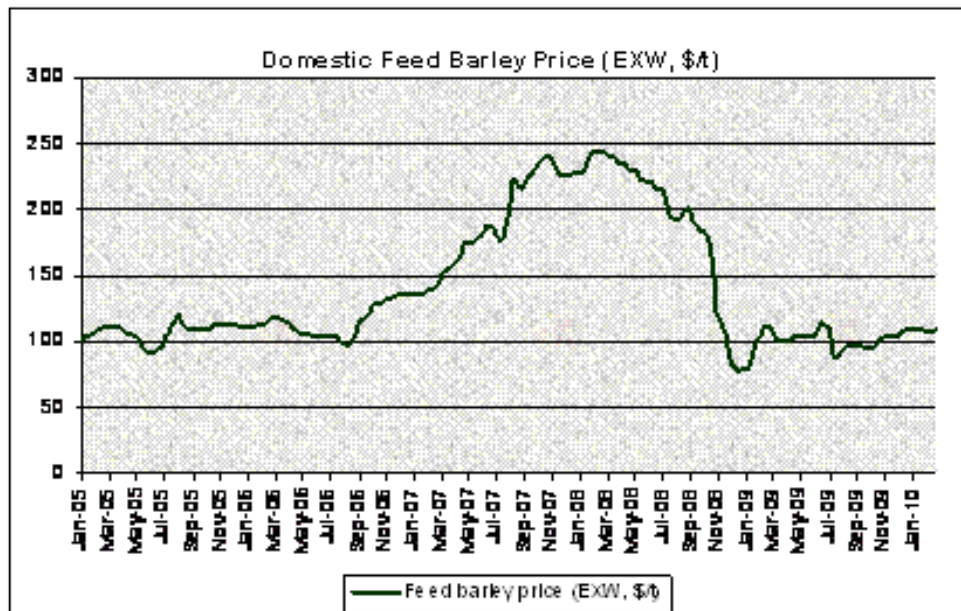
In the 2010/2011 marketing year, ending stocks for barley are expected to decrease compared to those in the 2009/2010 season due to lower supply. However, the difference is not dramatic.

As of February 1, 2010, agricultural producers (large and mid-size farms), elevators and processors stored 3.6 million tons of barley, which is 33% more compared to barley stocks on February 1, 2009. This figure includes 1.9 million tons of barley held by farmers (about 1.7 million tons was held by farmers in February 2009). This stock information does not account for barley stored by small farms and private households.



Source: State Statistics Committee of Ukraine

Barley prices are much lower this season compared to prices of feed corn. Feed barley prices started to grow in February, particularly on export demand. Usually, domestic prices of feed barley follow world market trends.



Source: Informational Agency APK-Inform

Production, Supply and Demand Data Statistics:

Ukraine										
Barley										
	2008 Revised			2009 Estimate			2010 Forecast			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2008	07/2008		07/2009	07/2009		07/2010	07/2010	MM/YYYY
Area Harvested	4,150	4,167	4,167	5,000	4,800	4,993			4,500	(1000 HA)
Beginning Stocks	824	800	824	1,057	1,016	1,068			1,199	(1000 MT)
Production	12,600	12,611	12,611	11,800	11,040	11,831			10,500	(1000 MT)
MY Imports	4	5	4	5	5	0			5	(1000 MT)
TY Imports	5	5	4	5	5	0			5	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0			0	(1000 MT)
Total Supply	13,428	13,416	13,439	12,862	12,061	12,899			11,704	(1000 MT)
MY Exports	6,371	6,600	6,371	6,000	5,700	5,700			5,000	(1000 MT)
TY Exports	5,871	6,600	6,371	6,000	5,700	5,700			5,000	(1000 MT)
Feed Consumption	4,300	4,100	4,300	4,400	3,900	4,400			4,200	(1000 MT)
FSI Consumption	1,700	1,700	1,700	1,700	1,600	1,600			1,600	(1000 MT)
Total Consumption	6,000	5,800	6,000	6,100	5,500	6,000			5,800	(1000 MT)
Ending Stocks	1,057	1,016	1,068	762	861	1,199			904	(1000 MT)
Total Distribution	13,428	13,416	13,439	12,862	12,061	12,899			11,704	(1000 MT)
Yield	3.0361	3.0264	3.0264	2.3600	2.3000	2.3695			2.3333	(MT/HA)

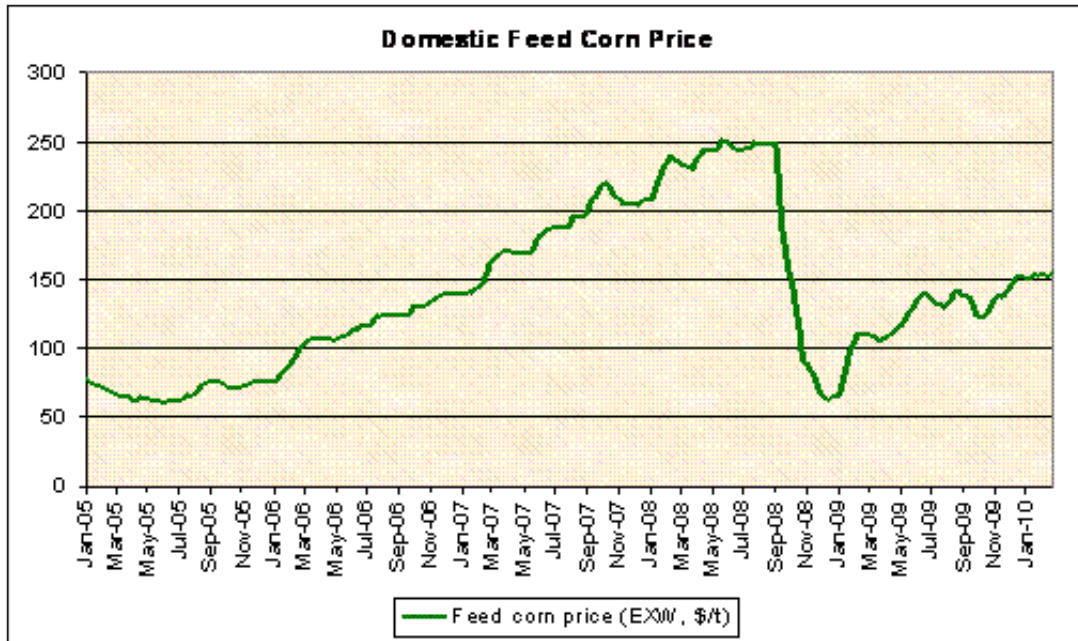
CORN

Production:

Corn production is expected to decrease slightly in the 2010/2011 marketing year, due to an expected decrease in average yield. It should be noted that average corn yield has increased essentially in the recent years, which may be attributed to the use of better planting seeds, especially if large corporate farms are considered.

Corn harvested area is expected to stay unchanged, which is rather a conservative assumption. If weather conditions are favorable, area planted with corn may increase. On the other hand, considering that agricultural lending is practically nonexistent in Ukraine these days, further increase in corn production may be limited with the scarcity of working capital, leading also to lower quality and quantity of agricultural inputs.

Feed corn prices are currently supported by export sales, thanks to favorable world prices in the beginning of MY 2009/2010. The situation with feed grains is different compared to the previous year, when feed corn was the cheapest among feed grains. In MY 2008/2009, because of the record grain crop and large carry-over stocks, some farmers also faced problems with corn storage due to lack of grain storage capacity in some Ukrainian regions. In the current 2009/2010, problems with grain stored were not so acute, as active export sales helped grain silos to get free. Some farmers switched to on-farm storage, due to an increase in prices of large grain silo services.



Source: Informational Agency APK-Inform

Consumption:

Feed use of corn is expected to decrease in the 2010/2011 marketing year due to lower supply. It will also follow the developments in the livestock sector.

Trade:

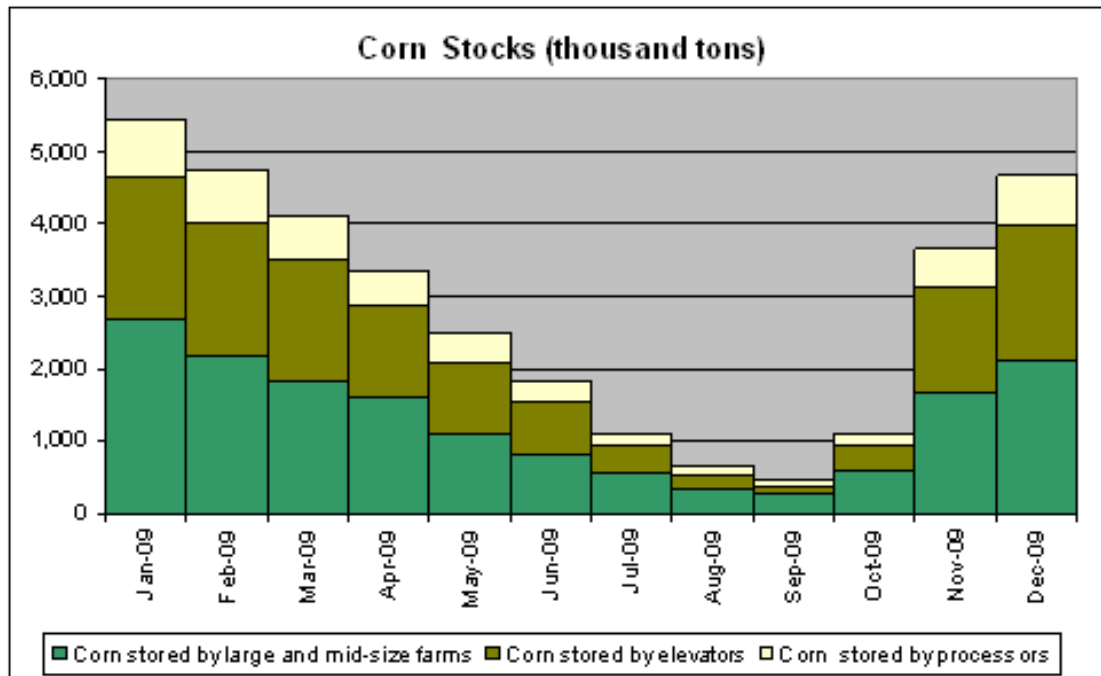
Feed corn exports are expected to reach 5 million tons in the current 2009/2010 marketing year (October/September). In the 2010/2011 marketing year, export sales are expected to decline due to lower production, but to remain relatively high at 4.3 million tons.

As previously expected, large feed grain availability in previously traditional markets and large export surplus, as well as world grain market developments, led to the changes in corn export destinations. This year, Middle East (Egypt, Syria, and Israel) is the largest buyer of Ukrainian corn, while previously traditional export markets for Ukrainian corn were Former Soviet Union countries, such as Russia and Belarus.

Stocks:

Ending corn stocks for the 2009/2010 marketing year are forecasted to decrease in spite of large supply. Ending stocks for the 2009/2010 marketing year are expected to stay almost unchanged.

As of February 1, 2010, agricultural producers (large and mid-size farms), elevators and processors stored 3.2 million tons of corn, which is 32% less compared to corn stocks on February 1, 2009. This figure includes 1.5 million tons of corn held by farmers (about 2.2 million tons was held by farmers in February 2009). This stock information does not account for corn stored by small farms and private households.



Source: State Statistics Committee of Ukraine

Production, Supply and Demand Data Statistics:

Ukraine										
Corn										
	2008 Revised			2009 Estimate			2010 Forecast			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		10/2008	10/2008		10/2009	10/2009		10/2010	10/2010	MM/YYYY
Area Harvested	2,400	2,424	2,440	2,100	1,950	2,088			2,100	(1000 HA)
Beginning Stocks	669	751	669	947	2,233	789			567	(1000 MT)
Production	11,400	11,422	11,447	10,500	7,800	10,468			9,900	(1000 MT)
MY Imports	25	10	20	10	10	10			10	(1000 MT)
TY Imports	25	10	20	10	10	10			10	(1000 MT)
TY Imp. from U.S.	0	2	2	0	2	2			2	(1000 MT)
Total Supply	12,094	12,183	12,136	11,457	10,043	11,267			10,477	(1000 MT)
MY Exports	5,497	4,000	5,497	5,000	3,000	5,000			4,300	(1000 MT)
TY Exports	5,497	4,000	5,497	5,000	3,000	5,000			4,300	(1000 MT)

Feed Consumption	4,900	5,200	5,100	4,900	5,000	5,000			4,900	(1000 MT)
FSI Consumption	750	750	750	750	700	700			700	(1000 MT)
Total Consumption	5,650	5,950	5,850	5,650	5,700	5,700			5,600	(1000 MT)
Ending Stocks	947	2,233	789	807	1,343	567			577	(1000 MT)
Total Distribution	12,094	12,183	12,136	11,457	10,043	11,267			10,477	(1000 MT)
Yield	4.7500	4.7120	4.6914	5.000	4.000	5.0134			4.7143	(MT/HA)

RYE

Production:

Winter rye planted area for 2010/2011 crop is estimated at 301 thousand ha, which is 38% less compared to planted area for 2009/2010 crop. Winter rye crops were not seriously damaged during the winter time. We estimate total winter and spring rye harvested area at 300 thousand ha, which is an optimistic assumption considering weather risks. We expect rye production to decrease to 630 thousand tons, implying an average rye yield of 2.1 tons per ha.

Consumption:

In the 2010/2011 marketing year, rye consumption is expected to stay close to the levels of the current season, but feed consumption of rye may decrease. If rye supply is lower than expected, rye consumption may decrease.

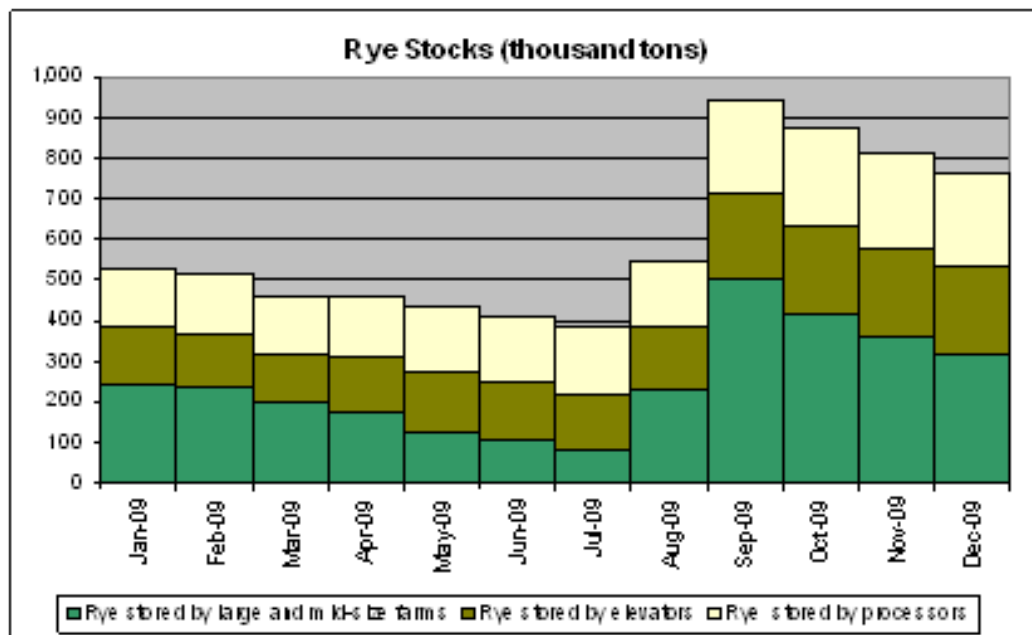
It will lead to lower production of some types of traditional bread produced from rye flour. These types of bread that are popular in Ukraine will be substituted by types of bread produced from wheat flour.

Trade:

FAS-Kyiv expects rye exports to be marginal in the 2010/2011 marketing year. Imports of rye are also unlikely in the current and the following marketing years.

Stocks:

Rye ending stocks are expected to decrease in the 2010/2011 marketing year, due to lower crop and beginning stocks. As of February 1, 2010, agricultural producers (large and mid-size farms), elevators and processors stored 0.7 million tons of rye, which is 37% more compared to rye stocks on February 1, 2009. This figure includes 0.2 million tons of rye held by farmers (about the same amount was held by farmers in February 2009). This stock information does not account for rye stored by small farms and private households.



Source: State Statistics Committee of Ukraine

Production, Supply and Demand Data Statistics:

Ukraine										
Rye										
	2008 Revised			2009 Estimate			2010 Forecast			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2008	07/2008		07/2009	07/2009		07/2010	07/2010	MM/YYYY
Area Harvested	450	459	459	460	450	461			300	(1000 HA)
Beginning Stocks	65	75	65	159	306	310			454	(1000 MT)
Production	1,050	1,051	1,051	950	810	954			630	(1000 MT)
MY Imports	0	0	0	0	0	0			0	(1000 MT)
TY Imports	0	0	0	0	0	0			0	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0			0	(1000 MT)
Total Supply	1,115	1,126	1,116	1,109	1,116	1,264			1,084	(1000 MT)
MY Exports	6	20	6	10	10	10			5	(1000 MT)
TY Exports	6	20	6	10	10	10			5	(1000 MT)
Feed Consumption	150	100	100	100	80	100			80	(1000 MT)
FSI Consumption	800	700	700	850	700	700			700	(1000 MT)
Total Consumption	950	800	800	950	780	800			780	(1000 MT)
Ending Stocks	159	306	310	149	326	454			299	(1000 MT)
Total Distribution	1,115	1,126	1,116	1,109	1,116	1,264			1,084	(1000 MT)
Yield	2.3333	2.2900	2.2898	2.0652	1.800	2.0694			2.1000	(MT/HA)

OATS

Production, Supply and Demand Data Statistics:

Ukraine										
Oats										
	2008 Revised			2009 Estimate			2010 Forecast			UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2008	07/2008		07/2009	07/2009		07/2010	07/2010	MM/YYYY
Area Harvested	450	445	445	420	350	416			420	(1000 HA)
Beginning Stocks	49	19	49	93	63	87			83	(1000 MT)

Production	950	944	944	730	630	731			715	(1000 MT)
MY Imports	0	0	0	0	0	0			0	(1000 MT)
TY Imports	0	0	0	0	0	0			0	(1000 MT)
TY Imp. from U.S.	0	0	0	0	0	0			0	(1000 MT)
Total Supply	999	963	993	823	693	818			798	(1000 MT)
MY Exports	6	0	6	5	0	5			5	(1000 MT)
TY Exports	6	0	6	5	0	5			5	(1000 MT)
Feed Consumption	700	750	750	550	520	550			550	(1000 MT)
FSI Consumption	200	150	150	200	150	180			180	(1000 MT)
Total Consumption	900	900	900	750	670	730			730	(1000 MT)
Ending Stocks	93	63	87	68	23	83			63	(1000 MT)
Total Distribution	999	963	993	823	693	818			798	(1000 MT)
Yield	2.	2.	2.1213	2.	2.	1.7572			1.7024	(MT/HA)

Production:

The area planted with oats is expected at 420 thousand hectares, which is close to the area planted with oats a year ago. The decrease in horse inventories resulted in a decrease in domestic demand for oats. Farmers have been switching to more profitable crops. We expect average oats yield to decrease to 1.7 tons per ha, resulting in a decline of oats production to 715 thousand tons in the 2010/2011 marketing year.

POLICY (All Grains)

Grain policies stay relatively liberal in the 2009/2010 marketing year, as there are no export bans or restrictions.

Based on the law “On State Support of Agriculture in Ukraine”, the GOU conducts intervention purchases and sales of agricultural and food commodities to influence (increase or decrease) prices. On January 1, the new law came into effect that introduces amendments to the legislation that governs grain interventions. The GOU needs to adopt a few bylaws for these changes to be operational, but we do not expect any significant impacts on grain markets because of it.

Based on the Decree adopted on January 20, the GOU plans to intervene particularly on wheat, rye, barley, corn and wheat/rye flour markets in the 2010/2011 marketing year. The Ministry of Agrarian Policy proposes to create state intervention fund in the amount of 1.26 million tons of grains, including 1.08 million tons of wheat, 106 thousand tons of rye, 44 thousand tons of barley and 28 thousand tons of corn in MY 2010/2011.

The GOU has not set minimum and maximum prices for the mentioned commodities yet (minimum and maximum prices are the indicators to start market interventions, respectively intervention purchases and intervention sales).

The GOU may also conduct “mortgage” purchases, which implies providing loans to farmers with the soft commodities used as collateral with a simplified procedure of the withdrawal of this collateral (usually, grains) if loans contracted are not repaid, as well as “forward” purchases, which is another form of state agricultural lending. Interventional, “mortgage” and “forward” purchases are performed by the state operated Agrarian Fund. The Agrarian Fund has been an active market player in the 2009/2010 marketing year, despite problems with direct state budget funding. The Ministry of Agrarian Policy said they hope that up to UAH 2 billion (\$250 million) will be provided to farmers through the mechanism of “forward” purchases this year. However, these plans seem to be overoptimistic.

In the 2009/2010 marketing year, the economic meltdown significantly limited state budget revenue, which led to significant downsizing of different state support programs, especially in agriculture. As of mid-February, the Parliament of Ukraine has not yet adopted State Budget of Ukraine for 2010, which implies that state budget spending is very limited now. Ukraine elected a new President in February 2010, which may possibly lead to appointing a new Government and adopting new economic policies. However, political debates in the Parliament have not been finished by the time when this report was prepared.

The GOU also authorized the Agrarian Fund to export grains. It is rumored that Agrarian Fund may export up to 0.5 million tons of grains in the 2009/2010 marketing year with export sales starting in March 2010.

One of the major problems faced by the grain industry is the situation with tax on added value (VAT) refunds to the exporters of agricultural products. VAT indebtedness of the Ukrainian State increased significantly in the 2009/2010 season. Some grain trading companies are said to have VAT receivables of about \$100 million per company, of which 60% is overdue. According to the industry, overdue VAT refunds to grain traders exceed UAH 3 billion (\$375 million). The grain industry also expresses concerns in regard to the lack of transparency, consistency and equity in VAT refunding.

The GOU plans to extend the use of procedures allowing grain exporters to receive a prompt VAT refunding if they purchase grain directly from the Agrarian Fund at prices that sometimes are higher than market. The Minister of Agrarian Policy said in February 2010 that the Agrarian Fund had 1.5 million tons of grain that could be used for VAT refunds to grain exporters.

Apart from market regulation, the GOU provides support to grain growers. Ukrainian grain growers continue to enjoy serious tax benefits that are the same for all agricultural producers. Current Ukrainian tax legislation allows agricultural companies to retain the 20% VAT charged on product they sell. The amount retained is accumulated to a special account and reinvested into company operations. In addition, companies, whose own agricultural production accounts for more than 75% of their gross sales, can apply to be registered as payers of a fixed agricultural tax in lieu of profit tax, land tax, water tax, municipal tax and some other taxes. This fixed tax is calculated on the basis of estimated value of land leased or owned by a tax payer.

As the state budget is severely constrained to finance direct subsidy programs in the 2010/2011 marketing year, we expect direct subsidies, if adopted, to have almost no impact on planting decisions for the 2010/2011 crop. The GOU previously reimbursed interest rate payments on the loans contracted by agricultural producers from local commercial banks and pressured local commercial banks to extend the loans taken on by agricultural producers, including grain growers, if they

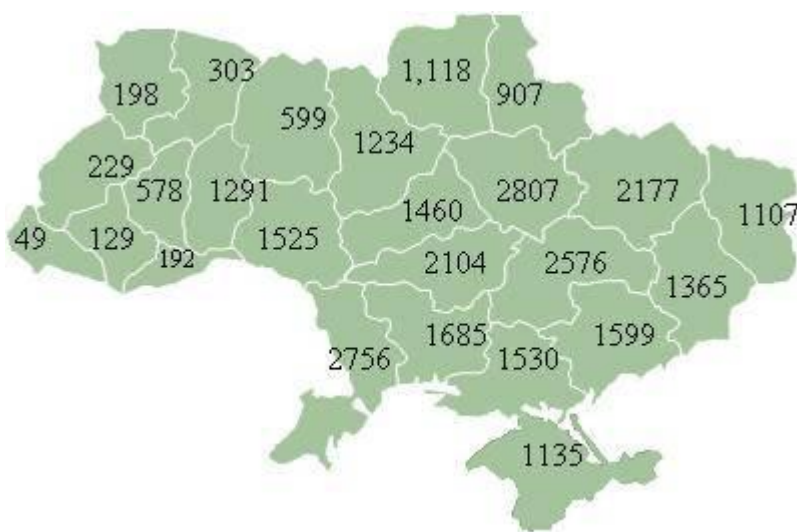
are not able to repay them in time. Agricultural lending in Ukraine is very limited now, and interest rates usually exceed 30%.

Grain Storage Capacities

As of February 2010, total capacity of certified grain elevators that are allowed to provide grain storage services is 30.8 million tons (755 silos). There is no official data on the total grain storage capacity, as grain processing plants or other private companies that store grain for their own purposes may not report on the storage capacities they have. Based on expert estimates, total grain silo capacities (both certified and non-certified) exceed 35 million tons with loading capacity of 1.5 million tons per day.

Most certified grain elevators are owned by private companies, but the largest operator of grain silos is state-run State Stock Company (SSC) “Khlіb Ukrainy”. It operates a number of grain handling enterprises, including 49 certified grain silos with total grain storage capacity of 3.7 million tons. The State Reserve owns 25 certified grain silos with total grain storage capacity of 2.1 million tons.

The largest private grain silo operators include leading grain trading companies, such as Kernel, Louis Dreyfus, Cargill, Bunge, WJ Grain etc. The lack of grain storage capacity was widely discussed when bumper grain crops were harvested in 2008 and 2009, as grain elevators were reportedly overloaded in some Ukrainian regions (see below the breakdown of grain storage capacities by regions).



Certified Grain Storage Capacities by Regions, 2010 (in thousand tons)

Source: Ministry of Agrarian Policy

Before the financial turmoil, lots of grain growing and trading companies had plans to build new modern grain elevators, but only some managed to accomplish their projects, as the financial turmoil forced most of them to put off capital expenditures due to lower credit availability. Quality of some grain silos built many years ago during the Soviet era is low, and their loading capacity is one of the constraints for prompt grain trade. For example, there are some grain silos with

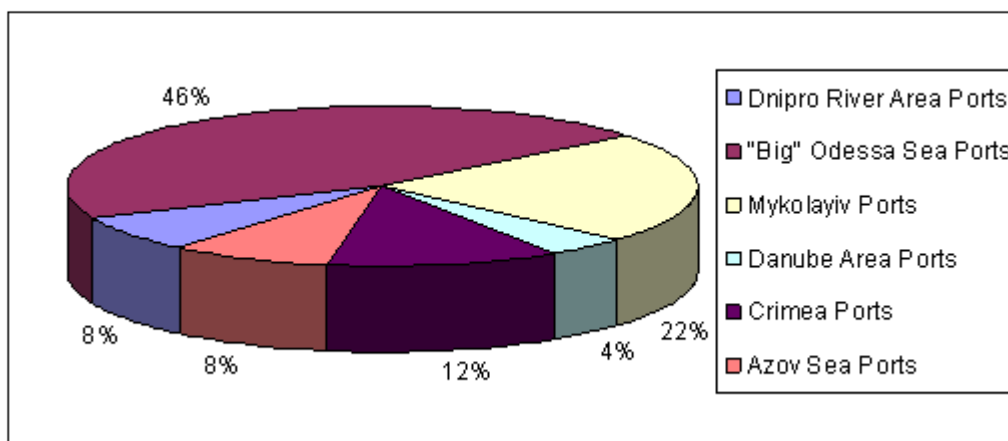
storage capacity of 100,000 tons which load only 10 railcars per day. Some farmers have developed on-farm storage capacities as a response to both the lack of large grain silos and to the increased price of elevator services.

Port Infrastructure for Grain Export and Transit

Ukraine has well-developed port infrastructure. There are 18 state-run and 7 private sea ports in Ukraine, as well as 12 port terminals on the shores of the Black Sea and Azov Sea. Port infrastructure for grain transshipment in Ukraine started growing quickly in the late 1990s and in the beginning of 2000s, as port infrastructure of Soviet times was obsolete and was not able to handle increased grain exports. Moreover, the grain port infrastructure of Soviet Union was import-oriented. In 2001, the capacity of grain transshipment of Ukrainian ports was about 15 million tons per year.

Current transshipment capacity of Ukrainian port grain terminals is estimated at almost 30 million tons with grain storage capacity of about 2 million tons, out of which 17 million tons may be transshipped through state ports that have grain storage capacity of about 1 million tons. Ukrainian port infrastructure was able to transship 2.6 million tons per month.

Increased capacity for grain export and transit is attributed to modern private grain port terminals, including Avlita, Traninvestservice, Transbulkterminal, Nibulon, Ukrelevatorprom and others. All the leading grain-trading companies were trying to purchase or build their own grain export facilities. Two port elevators are operated by SSC “Khlib Ukrainy”. Panamax-size ports in Odesa, Illichevsk and Yuzhnuy (also called “Big” Odessa Ports) are the primary Ukrainian ports for grains.



Grain Transshipment Capacities by Port Location (%)

Source: Global Shipping Agency

A bottleneck of grain export infrastructure is railway transportation, particularly weak infrastructure (low capacity) of railway stations located near main grain exporting ports and lack of railways in the areas close to these ports. There is also a lack of railcars to handle increased grain exports and transit. Ukrainian railways, which are state-run, currently use only 12 thousand railcars for grain transportation (based on expert estimates, less than 9 thousand railcars are actually used). Sometimes, the railways administration temporarily bans the supply of grain to some port destinations as the railways are blocked with railcars.

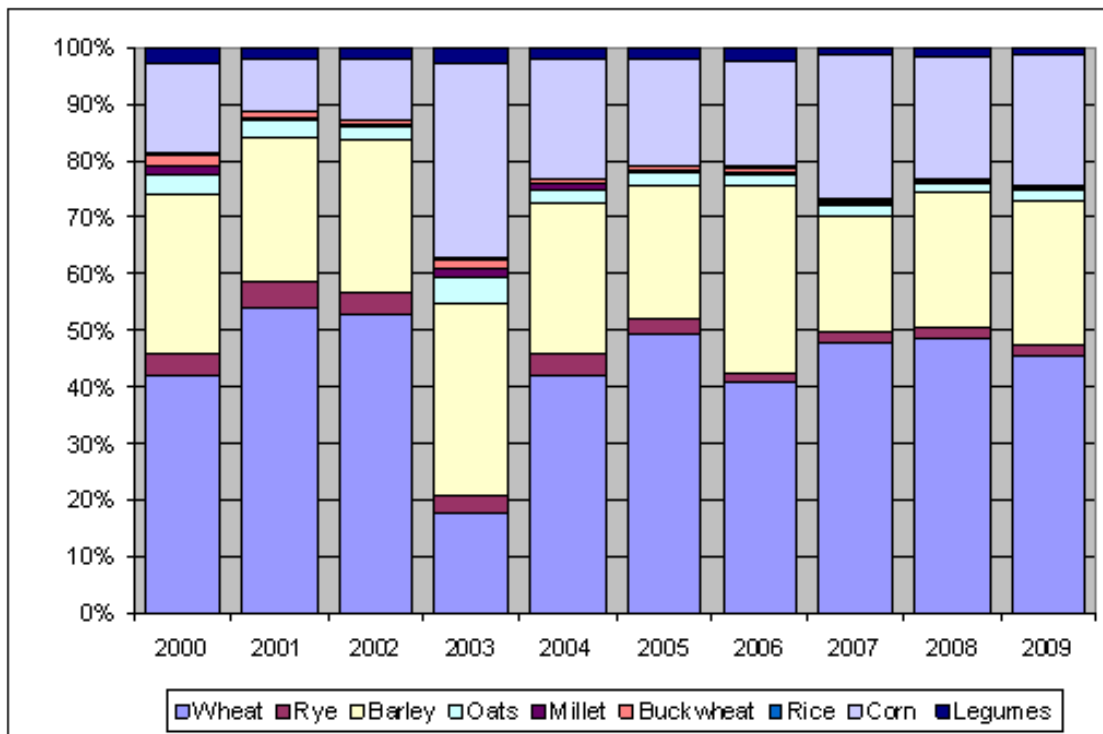
The economic meltdown led to a significant drop in exports of metal and some other commodities from Ukraine in 2009, which helped grain trading companies export grains. If there were active exports of metal, grain exporters would face much more competition for railway infrastructure. Truck transport is used for grain that is grown in regions close to grain exporting ports (200-300 km), and some grain producers or traders have already purchased trucks to transport grain. Some grain suppliers are considering increasing the use of internal water transportation (for example, grain is transported by railway or trucks to river ports and then shipped to exporting sea ports or to importing countries). However, railway transportation accounts for approximately 70% of grain transportation, while truck and river grain transportation accounts for only 27% and 3%, respectively.

Statistical Tables

Statistic Data on Grain and Pulse Production in Ukraine (2009)

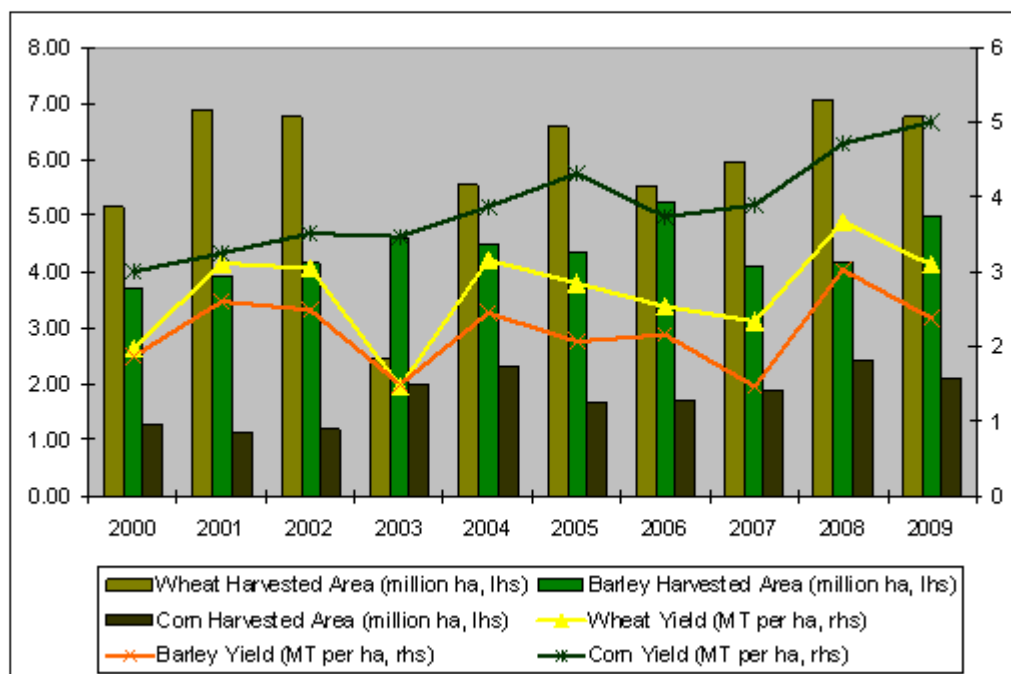
Crop	Area Harvested	Production	Yield
	1,000 ha	1,000 MT	MT/ha
Wheat	6,752.8	20,885.1	3.09
Rye	461.0	953.6	2.07
Barley	4,993.5	11,831.8	2.37
Corn	2,087.9	10,468.3	5.01
Oats	415.6	730.7	2.12
Millet	102.1	220.7	1.36
Buckwheat	254.2	188.6	0.74
Rice	24.5	142.9	5.83
Grain and Pulses	15,468.3	46,007.6	2.97

Source: State Statistics Committee of Ukraine



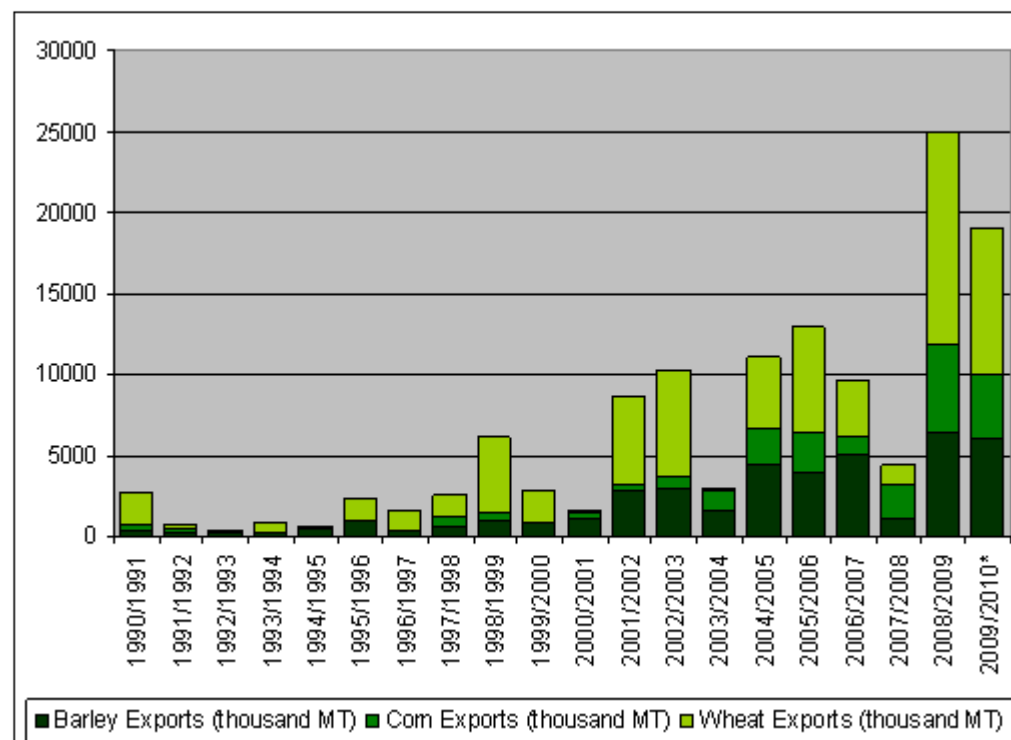
Grain Production Breakdown

Source: State Statistics Committee of Ukraine



Harvested Area and Average Yield of Ukraine's Major Grains

Source: State Statistics Committee of Ukraine



Exports of Ukraine's Wheat, Barley and Corn

Source: State Customs Committee of Ukraine, * - FAS/Kyiv estimate

Wheat Exports by Destination, Year-to Year Comparison, 1,000 MT

Country	July 04 - June 05	July 05 -June 06	July 06 -June 07	July 07 -June 08	July 08 -June 09
Spain	1,135	709	421	31	2,882
South Korea	108	405	25	0	1,228
Philippines	145	199	38	0	1,134
Egypt	187	307	439	76	1,126
Bangladesh	82	318	190	53	1,125
Israel	470	648	497	156	853
Tunisia	436	363	232	100	455
Italy	478	402	95	65	354
Jordan	34	157	0	99	351
Kenya	10	242	141	38	237
Libya	21	188	11	13	218
Portugal	0	0	0	0	210
Pakistan	0	0	0	28	201
Turkey	13	0	28	46	193
Iran	0	0	0	0	192
Netherlands	7	10	0	3	187
Syria	23	94	35	14	144
Algeria	147	322	14	0	119
Djibouti	0	21	0	0	118
Morocco	144	320	4	0	114
Other Not Listed	936	1,725	1,162	188	1,273
Total	4,377	6,427	3,330	911	12,715

Source: State Statistics Committee of Ukraine

Monthly Wheat Exports (July 2009 – December 2009), 1,000 MT

Country	Jul 2009	Aug 2009	Sep 2009	Oct 2009	Nov 2009	Dec 2009	Total
Bangladesh	16	169	647	255	168	14	1,269
Korea, South	154	318	118	122	159	255	1,124
Kenya	35	54	67	90	118	107	473
Spain	23	102	203	164	85	206	782
Tunisia	0	30	115	100	51	93	388
Jordan	0	0	0	0	49	0	49
South Africa	0	14	0	0	39	0	53
Egypt	90	99	47	112	39	30	417
Syria	9	53	48	103	31	9	253
Italy	13	23	15	18	29	0	97
Israel	66	67	68	51	26	60	338
Somalia	0	0	0	0	22	0	22
Djibouti	0	21	60	0	20	1	103
Uganda	0	0	0	16	16	7	38
Netherlands	0	7	1	0	13	6	28
Vietnam	11	23	84	10	10	74	212
Malaysia	0	3	10	9	9	4	36
Philippines	0	0	52	2	9	4	67
Hungary	0	28	1	0	8	0	37
Turkey	11	14	27	13	8	1	74
Nigeria	20	0	5	0	6	4	36
UK	1	8	8	5	6	0	28
Indonesia	1	2	64	28	5	6	108
Georgia	0	1	9	0	4	0	15
Japan	7	5	0	9	3	0	24
Taiwan	0	1	2	6	2	2	13
Sri Lanka	5	19	2	0	1	1	28
Unknown	0	0	0	0	0	65	65
Algeria	7	18	39	0	0	3	67
Iran	46	0	34	67	0	64	212
Korea, North	6	0	0	0	0	10	16
Sudan	55	11	3	0	0	0	70
Switzerland	2	1	26	9	0	7	45
Yemen	0	0	25	0	0	0	25
Mauritania	16	0	0	18	0	0	35
Lebanon	13	27	15	12	0	9	75
Libya	7	28	26	16	0	9	87
Other Not Listed	11	18	9	13	13	4	68
Total	627	1,165	1,832	1,249	949	1,057	6,879

Source: State Statistics Committee of Ukraine

Barley Exports by Country, Year-to Year Comparison (1,000 MT)

Country	July 04 - June 05	July 05 - June 06	July 06 -June 07	July 07 -June 08	July 08 -June 09
Saudi Arabia	1,806	2,254	3,466	520	2,555
Iran	433	388	109	48	1,277
Syria	428	288	215	86	834
Jordan	499	543	222	99	312
Israel	372	83	157	44	229
Kuwait	0	0	137	0	123
Cyprus	6	27	3	74	121
Libya	215	71	151	3	120
Tunisia	195	82	213	43	105
Qatar	0	0	0	0	98
UAE	0	0	39	0	84
Algeria	39	18	62	0	77
Netherlands	0	0	10	0	57
Switzerland	0	2	0	6	51
Kazakhstan	2	0	0	0	51
Morocco	93	46	68	14	48
UK	8	55	177	7	44
Lebanon	25	5	0	6	39
Oman	0	0	0	0	34
Spain	0	0	0	0	34
Turkey	3	0	0	51	26
Belarus	6	6	24	9	6
Hungary	101	27	0	0	0
Japan	0	60	0	0	0
Other Not Listed	85	6	49	36	43
Total	4,315	3,959	5,103	1,045	6,371

Source: State Statistics Committee of Ukraine

Monthly Barley Exports (July 2009 – December 2009), 1,000 MT

Country	Jul 2009	Aug 2009	Sep 2009	Oct 2009	Nov 2009	Dec 2009	Total
Saudi Arabia	623	567	367	360	141	231	2,289
Israel	11	37	38	37	46	29	198
Kuwait	0	0	47	0	41	0	88
Japan	23	49	0	53	35	0	160
Iran	0	0	0	108	26	42	175
Morocco	7	34	23	6	19	0	89
Libya	0	34	53	41	15	38	181
Jordan	0	49	86	59	9	0	202
Syria	7	41	10	13	8	20	99
Switzerland	0	0	0	52	6	3	61
Turkey	0	0	22	40	4	9	75
Uzbekistan	0	0	2	1	1	2	6
UAE	0	0	9	0	1	0	10
Netherlands	19	0	20	8	0	4	51
Vietnam	0	0	0	0	0	2	2
Spain	8	0	0	0	0	0	8
United Kingdom	0	20	3	0	0	0	23
Algeria	0	0	8	5	0	0	13
Cyprus	0	0	7	8	0	0	15
France	6	6	0	0	0	0	12
Gibraltar	0	0	0	3	0	2	5
Kazakhstan	0	4	6	0	0	0	10
Lebanon	0	13	4	0	0	0	17
Latvia	0	0	9	0	0	0	9
Hungary	0	7	0	15	0	0	22
Other Not Listed	0	0	2	1	1	0	5
Total	705	862	715	808	354	382	3,825

Source: State Statistics Committee of Ukraine

Corn Exports by Country, Year-to Year Comparison (1,000 MT)

Country	Oct 04- Sep 05	Oct 05 - Sep 06	Oct 06 - Sep 07	Oct 07 - Sep 08	Oct 08 - Sep 09
Egypt	54	150	196	0	1,038
Iran	517	169	58	0	696
Syria	113	196	0	83	657
Israel	294	237	0	13	413
Tunisia	165	194	19	19	359
Algeria	103	155	6	17	265
Spain	329	288	48	88	234
Libya	101	254	25	11	207
Turkey	41	8	240	238	194
Japan	0	0	0	0	194
Belarus	254	252	243	127	155
South Korea	0	0	0	0	126
Morocco	0	0	0	0	104
Netherlands	0	0	5	12	98
Vietnam	0	0	0	0	87
Kenya	0	8	0	0	83
Jordan	14	16	0	0	61
Hungary	0	22	6	6	56
Sudan	14	0	0	0	53
Portugal	7	79	0	0	52
Russia	202	240	63	303	32
Lithuania	0	0	7	151	21
Italy	4	0	0	213	6
Poland	0	0	0	178	6
Greece	0	0	4	299	1
Other Not Listed	126	197	106	315	297
Total	2,339	2,464	1,027	2,074	5,497

Source: State Statistics Committee of Ukraine

Monthly Corn Exports by Destination (October 2009 – December 2009), 1,000 MT

Country	Oct-09	Nov-09	Dec-09	Total
Egypt	122	304	341	767
Syria	38	195	186	418
Libya	12	78	90	180
Tunisia	30	76	20	126
Spain	25	71	113	209
Japan	0	50	49	99
Israel	44	41	83	168
Portugal	0	36	34	70
Algeria	18	30	80	129
Lebanon	0	29	15	44
Kenya	0	26	14	40
Turkey	11	25	12	48
Georgia	2	10	3	15
Netherlands	0	9	22	31
Iran	30	8	0	37
Azerbaijan	3	3	0	7
Switzerland	7	2	1	10
Other Not Listed	5	7	10	22
Total	346	1,001	1,072	2,420

Source: State Statistics Committee of Ukraine